FARMERS' NEWSLETTER
Feed Grains

February 82/F-21

Farmers are painfully aware that feed grain prices are sharply below last season's levels.

The weakness reflects record U.S. and world supplies and sluggish economies here and in countries that import our grain. Domestic use of feed grains this season will be only moderately larger than last year while exports will be smaller. Carryover stocks at the end of 1981/82 may amount to 65 million metric tons, over 85 percent above the reduced level of the year before and the most in nearly 20 years.

Acreage Reduction Program Announced

To improve prices, Secretary Block announced a voluntary 10-percent acreage reduction program for 1982-crop feed grains. He also announced that participants would be able to put their 1982 crops into the farmer-owned reserve right after harvest at loan rates considerably higher than those for regular 9-month price support loans.

The signup period for all grain programs is February 16 through April 16. Final eligibility will be determined by ASCS about 6 weeks before harvest.

Program Participation Advantages

Only participating farmers will be eligible for regular 9-month price support loans, the farmer-owned reserve, and deficiency payments--if prices in the first 5 months of the marketing year average below target prices. If Federal crop insurance is not available in your county, participation would make you eligible for disaster protection. Also, payments for storage are made each year in advance for grain in the reserve, whether stored on or off the farm. For 1982, the storage payment is $0.265 per bushel for corn, sorghum, barley, and wheat, and 20 cents for oats.

Regular Loan Rates Raised; Reserve Loan Rates Even Higher

Regular 9-month price support loans on 1982-crop feed grains and wheat are higher than they were for 1981 crops. Loan rates for grain put into the reserve also are higher than last year and higher than for regular loans. Grain can be placed in the reserve only if average prices are below the trigger price. Currently, prices for corn, sorghum, and feed barley are below the 1982 trigger, but the average price for oats exceeds the trigger.

Grain in the reserve cannot be sold without penalty until the market price exceeds the reserve trigger level. Here are the loan rates and reserve trigger levels for 1982 crops:

	Regular[1]	Reserve[1]	Trigger
		Dollars per bushel	
Corn	2.55	2.90	3.25
Sorghum	2.42	2.75	3.10
Barley	2.08	2.37	2.65
Oats.	1.31	1.49	1.65
Wheat.	3.55	4.00	4.65

[1] County rates may differ.

The interest rate on loans made in February is 14 percent. Rates will change each month in line with costs of borrowing from the U.S. Treasury. Each January, the interest rate on all outstanding loans is changed to the January rate, where it's fixed for

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the duration of the loan. Interest on reserve loans is charged for the first year only.

Target Prices Higher

Target prices per bushel for 1982 crops are: corn, $2.70; sorghum, $2.60; barley, $2.60; oats, $1.50; wheat, $4.05. They apply for eligible producers throughout the United States.

Deficiency payments are made when farm prices average below the target price during the first 5 months of the marketing year. However, the deficiency payment rate cannot exceed the difference between the target price and the regular 9-month national average loan rate. Thus, the maximum deficiency payment for 1982-crop corn would be $0.15 per bushel ($2.70 - $2.55).

Deficiency payments are made to eligible producers on the basis of the established yields of their farms, not on the harvest of the current year, and are paid whether the farmer still owns the grain, has sold it, or has it under regular loan or in the reserve. Established yields are being revised this year. Check at your ASCS office.

Program Requirements

Participating farmers must reduce acreage planted to corn, sorghum, barley, and oats by at least 10 percent from their feed grain bases. Each farm will have two bases--one for corn and sorghum, the second for barley and oats. Generally, the bases will be the higher of the 1981 base acreage, or the average of the 1980 and 1981 acreages. Bases can be adjusted to reflect rotations for farms that have been following a definite rotation pattern.

The 1982 program doesn't require offsetting compliance or cross compliance. This means that producers don't have to participate on all the farms they own or operate to obtain benefits on participating farms. Also, participation in the feed grain program isn't required to qualify for program benefits on other crops grown on the farm.

Here's how the program will work: A farmer with a base of 100 acres cannot plant more than 90 acres of corn and sorghum for 1982 harvest. The 10-acre reduction (11.11 percent of the 90 acres permitted) must be devoted to a conservation use. A farmer planting less than the full 90 acres to corn and sorghum can devote fewer acres to conservation. If, for example, only 50 acres are planted, only 5.55 acres (11.11 percent of 50) must go to conservation.

The land taken from production and devoted to conservation uses must be eligible cropland and protected from wind and water erosion, and not mechanically harvested. Grazing is permitted on this acreage, but not during the 6 main growing months. Contact your ASCS office to determine bases for corn-sorghum, barley-oats, wheat, rice, and cotton.

Deciding on Participation

Evaluate the program by using the same budgeting methods used to select which crops to plant--simply compare the estimated net returns from each 1982-crop alternative. Consider the following situation shown in the "Corn Net Returns" table for a farmer participating in the reduced acreage program:

- The base is 100 acres and 90 are planted to corn--the maximum allowed.
- Expected yield is 105 bushels an acre on the 90 planted acres.
- Estimated selling price is the same as the national average loan rate--$2.55 a bushel.
- The deficiency payment rate is $.15 a bushel.
- Program payment yield established by ASCS is 95 bushels an acre.
- Variable production costs for corn are $170 per planted acre.
- Cover crop costs are $35 an acre for the 10 acres in conserving use.

The participating farm considers receipts from two possible sources--a cash sale and deficiency payments. Costs will include variable outlays on land planted in corn and those for a

cover crop on conserving acres. There is no need to consider fixed costs, because they are the same regardless.

In this example, the participating farm gives up returns on 10 acres and incurs cover crop costs on these acres to be eligible for loans, the farmer-owned reserve, and any deficiency payments. Net returns from participating are $9,730.

Another way to view the importance of deficiency payments is to spread them over the reduced acres. The calculation is:

$$\frac{\text{Payment rate} \times \text{payment yield} \times \text{planted acreage}}{\text{Reduced acreage}}$$

From the example:

$$\frac{\$0.15 \times 95 \times 90}{10} = \$128.25$$

Now subtract the cover crop costs:

$$\$128.25 - \$35 = \$93.25$$

Program participation amounts to a payment of $93.25 for each acre idled. If the farm cannot net at least $93.25 an acre by planting rather than idling this land, then participation is more profitable.

Returns From Not Participating

By not idling land, our example farmer can plant all 100 acres in corn and earn larger receipts from the cash sale than by complying. However, this producer faces some offsetting factors.

- The additional planted acreage is assumed to include marginal land, so average yield on 100 acres planted and harvested would be slightly lower, say, 103 bushels an acre.
- By not reducing acreage, the nonparticipant foregoes possible deficiency payments.
- No cover crop costs are incurred.

Net returns when not participating--$9,265--are $465 below those when participating, so program compliance benefits this sample farm.

CORN NET RETURNS[1]

	Participant	Nonparticipant
INCOME		
1 Acres harvested	90	100
2 Yield/acre (bu.)	x 105	x 103
3 Production (bu.)	9,450	10,300
4 Farm price ($/bu.)	x 2.55	x 2.55
5 Cash sale income ($)	24,097.50	26,265
6 Program payment yield (bu./acre)	95	0
7 Program acres harvested	x 90	0
8 Production for payment (bu.)	8,550	0
9 Deficiency payment rate ($/bu.)	x .15	0
10 Deficiency payments ($)	1,282.50	0
11 Total gross income ($)	25,380	26,265
EXPENSES		
12 Acres harvested	90	100
13 Variable production cost ($/acre)	x 170	x 170
14 Subtotal cost ($)	15,300	17,000
15 Conserving acres	10	0
16 Cover cost ($/acre)	x 35	0
17 Subtotal cost ($)	350	0
18 Total expenses ($)	15,650	17,000
19 Income less expenses ($)	9,730	9,265

[1] Returns above variable costs per 100 acres of corn base.

Remember, your expected price, costs, yields, and so on will surely differ from those in this example. But, by plugging in your own estimates for any of the feed grains, you can weigh the effects of the reduced acreage program on your farm.

If Prices Strengthen

In the example, the national average loan rate for the 1982 crop was used as the expected selling price. This assumption gives the maximum possible deficiency payment and helps make participation attractive. So, what happens to net returns if farm prices turn higher? Prices of $2.65 and $2.75 give net returns for our sample farm:

Expected selling price ($/bu.)	Net returns ($)	
	Participant	Nonparticipant
2.55.	9,730	9,265
2.65.	9,820	10,295
2.75.	10,338	11,325

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A Formula

As the expected farm price rises, the incentive to participate falls, because a higher price lowers deficiency payments and raises the income earned on the extra 10 acres that can be planted when not participating. At some price, net returns from participating will equal those from not participating.

The "equalizing" price--call it EP--can be found by trial and error by reworking the table. Or, the following formula may be used:

$$EP = \$2.55 + \frac{\$9,730 - \$9,265}{10,300 + 8,550 - 9,450}$$

$$= \$2.55 + \frac{\$465}{9,400}$$

$$= \$2.55 + \$.05 = \$2.60.$$

The formula uses the $2.55 expected price--line 4 of the table--and data from lines 3, 8, and 19. However, you can complete the table with your own expected price, deficiency payment rate, yields, costs, and so on. In the formula, follow the example, using your expected price and the values you compute for lines 3, 8, and 19.

If you think your selling price will be lower than your equalizing price, participation becomes more attractive. If you think it will be higher, participation becomes less attractive, depending on the value you place on the loan and reserve programs.

Loan and Reserve--Two Other Key Factors

Even if the prospect of deficiency payments doesn't make program participation attractive, eligibility for CCC loans and the farmer-owned reserve may be strong incentives for reducing acreage. The regular loan provides cash at harvest and allows marketing flexibility. Should prices be poor in the fall--often the time of seasonal lows--the loan may permit you to delay your selling decision and benefit if prices rise later.

A farmer-owned reserve loan aids cash flow substantially because you may immediately enter grain in the reserve when market prices are below trigger prices. Upon entry, you receive the higher reserve loan rate plus a year's storage payments in advance. For corn, this is $3.165 a bushel ($2.90 + $.265) --well above prices expected for the remainder of this season. Also, the farmer-owned reserve offers a chance of a higher price in the future--beyond the 9-month life of a regular loan.

Whether this opportunity option is reason enough to comply with the reduced acreage program will depend on the extent to which your might use the reserve. And that might depend on grain prices expected for next season and the cost and availability of storage space.